

**WILLARD CITY, UTAH  
BASIC FINANCIAL STATEMENTS AND  
REQUIRED SUPPLEMENTARY INFORMATION  
WITH INDEPENDENT AUDITOR'S REPORTS  
YEAR ENDED JUNE 30, 2006**

**WILLARD CITY, UTAH  
YEAR ENDED JUNE 30, 2006**

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## INDEPENDENT AUDITOR'S REPORT

Honorable Mayor and City Council  
Willard City

We have audited the accompanying financial statements of the governmental activities, the business-type activities and each major fund of Willard City, Utah, as of and for the year ended June 30, 2006, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Willard City's, management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities and each major fund of Willard City, as of June 30, 2006, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 3, 2006, on our consideration of Willard City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis and budgetary comparison information on pages 2 through 8 and pages 37 through 38, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Wood Richards & Associates

November 3, 2006

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## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

**WILLARD CITY  
MANAGEMENT'S DISCUSSION & ANALYSIS  
FOR THE YEAR ENDED JUNE 30, 2006**

The management of Willard City offers the readers of the Willard City financial statements this narrative overview and analysis of the financial activities for the fiscal year ended June 30, 2006.

This report form is designed to provide more information on the City's activities and is classified in the following manner:

Government activities - refer to general administration, parks, streets, fire etc.

Business type activities - refer to operations such as water and sewer.

**FINANCIAL HIGHLIGHTS**

- ☐ The total assets of Willard City exceeded its liabilities as of the close of the most recent year by \$3,772,235. Of this amount \$830,253 are unrestricted net assets and may be used to meet the government's ongoing obligations to its citizens.
- ☐ The total net assets of \$ 3,772,235 is made up of \$2,667,705 in capital assets net of related debt and \$1,104,530 in other net assets
- ☐ The total long-term liabilities of the City decreased by \$69,793 due to regular principal payments.
- ☐ At the close of the current year, Willard City's governmental funds reported an ending fund balance of \$630,178 a decrease of \$6,244 in comparison with the prior year.
- ☐ A proprietary fund for business type activity has been added to include accounting of the revenue and expenses for the sewer system.

**REPORTING THE CITY AS A WHOLE**

In addition to the Management's Discussion and Analysis (MD&A), the basic financial statements contain three basic components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. The first several statements are condensed and present a government-wide view of the City's finances. This view categorizes the City operations as either governmental or business-type activities. Governmental activities include basic services such as police, fire and inspection, public works, parks and recreation, and general government administration. The business-type activities include water and garbage services funded by user fees.

***The government-wide financial statements*** are designed to provide readers with a broad overview of Willard City's finances, in a manner similar to a private sector business.

**WILLARD CITY  
MANAGEMENT'S DISCUSSION & ANALYSIS  
FOR THE YEAR ENDED JUNE 30, 2006**

**The statement of net assets** presents information on all of Willard City's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of Willard City is improving or deteriorating.

**The statement of activities** presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus all of the current year's revenues and expenses are taken into account regardless of when cash is received or paid. Both of the government-wide financial statements distinguish functions of Willard City that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges.

**REPORTING THE CITY'S MOST SIGNIFICANT FUNDS**

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. Willard City also uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into two categories: governmental funds and enterprise funds.

- *Government funds* are used to account for the same functions reported as governmental activities in the government-wide financial statements. These funds focus on how money flows into and out of these funds and the balances left at year-end that are available for spending. These funds are reported using an accounting method called modified accrual accounting, which measures cash and other financial assets that can be readily converted to cash. The governmental fund statements provide a detailed short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps users determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs. We describe the relationship (or differences) between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds in a reconciliation included with the fund financial statements.

Both the General Fund and Capital Projects Fund are considered to be major funds.

- *Proprietary (Enterprise) funds* - Willard City now has two types of proprietary funds. Enterprise funds are used to report the same functions presented as business-type activities as in the government-wide financial statements. Willard City uses the enterprise fund to account for its Water and Garbage Utility. Accounting for the Sewer Utility, which is currently in the design phase, has also been added as a proprietary fund. As determined by generally accepted accounting principles, both proprietary funds meets the criteria of major fund classification.

**WILLARD CITY  
MANAGEMENT'S DISCUSSION & ANALYSIS  
FOR THE YEAR ENDED JUNE 30, 2006**

**GOVERNMENT-WIDE FINANCIAL ANALYSIS**

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of Willard City, assets exceed liabilities by \$3,772,235.

By far the largest portion of Willard City's net assets reflects its investment in capital assets ( e.g., land, buildings, infrastructure assets, machinery and equipment, less any related debt used to acquire those assets that are still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

A condensed Statement of Net Assets follows:

**Net Assets at Year-End**

	<b>Governmental Activities</b>		<b>Business-Type Activities</b>		<b>Total</b>	
	<b>2006</b>	<b>2005</b>	<b>2006</b>	<b>2005</b>	<b>2006</b>	<b>2005</b>
Cash	\$ 588,572	\$ 592,839	\$1,211,067	\$ 354,606	\$1,799,639	\$ 947,445
Accounts Receivable	50,121	47,257	35,955	32,800	86,076	80,057
Capital Assets	986,632	765,600	2,417,112	2,236,604	3,403,744	3,002,204
<b>Total Assets</b>	<b>1,625,325</b>	<b>1,405,696</b>	<b>3,664,134</b>	<b>2,624,010</b>	<b>5,289,459</b>	<b>4,029,706</b>
Current Liabilities	8,515	3,674	772,670	35,501	781,185	39,175
Long-term Liabilities	6,651	-	729,388	805,832	736,039	805,832
<b>Total Liabilities</b>	<b>15,166</b>	<b>3,674</b>	<b>1,502,058</b>	<b>841,333</b>	<b>1,517,224</b>	<b>845,007</b>
<b>Net Assets:</b>						
Invested in Capital Assets, Net of Debt	979,981	765,600	1,687,724	1,430,772	2,667,705	2,196,372
Restricted	168,403	137,210	105,874	60,000	274,277	197,210
Unrestricted	461,775	499,212	368,478	291,905	830,253	791,117
<b>Total Net Assets</b>	<b>\$1,610,159</b>	<b>\$1,402,022</b>	<b>\$2,162,076</b>	<b>\$1,782,677</b>	<b>\$3,772,235</b>	<b>\$3,184,699</b>

The City's cash increased by \$852,194 during 2006. This is due to a \$874,000 grant received in the Sewer Fund for the sewer system to be designed and constructed.

The City's capital assets increased in 2006 by \$401,540. The most significant capital purchases during 2006 were the new fire truck for \$243,000 and \$236,000 in the construction in progress in the Sewer System. Of the \$874,000 grant for the Sewer system, \$637,670 is deferred, because the money must be spent on the sewer system and that has not occurred entirely.

**WILLARD CITY  
MANAGEMENT'S DISCUSSION & ANALYSIS  
FOR THE YEAR ENDED JUNE 30, 2006**

A condensed Statement of Activities follows:

	<b>Governmental Activities</b>		<b>Business-Type Activities</b>		<b>Total</b>	
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
Revenues:						
Program Revenues						
Charges for Services	\$ 209,904	\$ 198,258	\$ 438,444	\$ 333,950	\$ 648,348	\$ 532,208
Grants and Contributions	174,705	165,458	236,330	-	411,035	165,458
General Revenues:						
Taxes	374,007	355,804	-	-	374,007	355,804
Interest	32,956	15,889	5,800	821	38,756	16,710
Miscellaneous	19,567	9,366	-	-	19,567	9,366
Total Revenues	<u>811,139</u>	<u>744,775</u>	<u>680,574</u>	<u>334,771</u>	<u>1,491,713</u>	<u>1,079,546</u>
Expenses						
General Government	238,253	186,002	-	-	238,253	186,002
Police	153,898	138,006	-	-	153,898	138,006
Fire	51,576	53,513	-	-	51,576	53,513
Highways and Public Improvements	141,529	107,627	-	-	141,529	107,627
Parks	17,746	31,512	-	-	17,746	31,512
Water	-	-	280,467	262,879	280,467	262,879
Refuse	-	-	56,209	52,165	56,209	52,165
Total Expenses	<u>603,002</u>	<u>516,660</u>	<u>336,676</u>	<u>315,044</u>	<u>939,678</u>	<u>831,704</u>
Change in Net Assets	208,137	228,115	343,898	19,727	552,035	247,842
Prior Period Adjustment	-	-	35,501	(35,501)	35,501	(35,501)
Beginning Net Assets	<u>1,402,022</u>	<u>1,173,907</u>	<u>1,782,677</u>	<u>1,762,950</u>	<u>3,184,699</u>	<u>2,936,857</u>
Ending Net Assets	<u>\$1,610,159</u>	<u>\$1,402,022</u>	<u>\$2,162,076</u>	<u>\$1,782,677</u>	<u>\$3,736,734</u>	<u>\$3,184,699</u>

Total revenues for the City for the year ended June 30, 2006 were \$1,491,713, an increase of \$412,167 from the prior year. This increase is mostly due to the \$236,330 grant that was recognized in the Sewer Fund and an increase in impact fees and user fees in the proprietary funds caused by the significant growth in residential construction.

**FINANCIAL ANALYSIS OF GOVERNMENT'S FUNDS**

The focus of the City's governmental funds is to provide information on near-term inflows, outflows, and balance of spendable resources. Such information is useful in assessing the City's financing requirements.



**WILLARD CITY  
MANAGEMENT'S DISCUSSION & ANALYSIS  
FOR THE YEAR ENDED JUNE 30, 2006**

As of June 30, 2006, Willard City's Governmental Funds (General and Capital Projects reported a combined ending fund balance of \$630,178 a decrease of \$6,244 in comparison with the prior year. Approximately 18% of this amount \$139,597 constitutes an *unreserved fund balance* in the General Fund, which is available for spending at the Government's discretion. The remainder of the balance is *reserved* to indicate that it has already been committed to: 1) Public improvements or 2) Road projects.

The General Fund is the chief operating fund of the City. All activities which are not required to be accounted for in separate funds either by state or local ordinance or by a desire to maintain a matching of revenues and expenses are accounted for in this fund.

Taxes continue to be the largest source of revenue in the General Fund and represent 47% of the total general fund revenues. This compares with 48% in the prior fiscal year ended June 30, 2005. The major source of tax revenue comes from sales & use taxes and is 50% of the tax revenue.

As stated earlier, the City maintains the Enterprise fund to account for the business-type activities of the City. The separate fund statements included in this report provide the same information for business-type activities as is provided in the government-wide financial statements. However, the difference is that the fund statements provide much more detail.

Major capital asset events during the fiscal year ending June 30, 2006, included the following:

\$25,000	Purchase of a Police vehicle and equipment
\$243,000	Purchase of a new Pierce fire truck. The purchase was made possible with a 10% matching Assistance to Fire Fighters Grant. The grant amount was \$217,995.
\$6,350	Purchase of an ADA compliant door for City Hall. Additional improvements to include a ramp will be made in the 2006-07 fiscal year.
\$12,500	Purchase of a new server, four desktop computers, a laptop computer, a projector and screen.

**WILLARD CITY  
MANAGEMENT'S DISCUSSION & ANALYSIS  
FOR THE YEAR ENDED JUNE 30, 2006**

**WILLARD CITY'S CAPITAL ASSETS**

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>
Land	\$53,000	\$70,500
Land Improvements	51,937	
Buildings	349,047	
Machinery and Equipment	799,701	118,692
Water System		3,110,234
Sewer System		236,330
Infrastructure	948,535	
Less Accumulated Depreciation	<u>(1,215,588)</u>	<u>(1,118,644)</u>
Total Capital Assets, Net	<u>\$ 986,632</u>	<u>\$ 2,417,112</u>

Additional information on the City's capital assets can be found in the footnotes to this financial report.

Long-term debt - June 30, 2006, the City had total bonded debt outstanding of \$729,388. The total amount is debt which is secured solely by specific revenue sources (revenue bonds). The General fund for governmental activities had no debt.

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>
Revenue bond series 2002		\$293,688
Revenue bond series 1995		347,990
Revenue bond series 1995 B		87,710
Total	<u>\$ 0</u>	<u>\$729,388</u>

The City's bonded debt decreased by \$76,444 during the fiscal year.

Additional information on the outstanding debt obligations of the City can be found in the footnotes of this report.

**WILLARD CITY  
MANAGEMENT'S DISCUSSION & ANALYSIS  
FOR THE YEAR ENDED JUNE 30, 2006**

**BUDGETARY HIGHLIGHTS**

The City maintained each department's expenditures within their budget appropriations. Total expenditures in the general fund were \$725,732, which was \$50,697 less than budgeted.

During the year the City did amend the budget once to provide for unexpected expenses during the year. All amendments were insignificant. Total budgeted expenditures were increased by \$33,450.

The City's actual revenues exceeded their budget appropriations by \$34,710.

**REQUEST FOR INFORMATION**

This financial report is designed to provide a general overview of Willard City's finances for all those who are interested. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Willard City Recorder, PO Box 593, Willard, UT 84340.

**WILLARD CITY**  
**STATEMENT OF NET ASSETS**  
**JUNE 30, 2006**

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
<b>ASSETS</b>			
<b>Current Assets:</b>			
Cash	\$ 588,572	\$ 437,543	\$ 1,026,115
Restricted Cash	-	773,524	773,524
Accounts Receivable (Net)	-	35,955	35,955
Accounts Receivable - Intergovernmental	50,121	-	50,121
<b>Total Current Assets</b>	<u>638,693</u>	<u>1,247,022</u>	<u>1,885,715</u>
<b>Noncurrent Assets:</b>			
<b>Capital Assets:</b>			
Land	53,000	70,500	123,500
Land Improvements	51,937	-	51,937
Buildings	349,047	-	349,047
Machinery and Equipment	799,701	118,692	918,393
Utility Systems	-	3,346,564	3,346,564
Infrastructure	948,535	-	948,535
Less Accumulated Depreciation	(1,215,588)	(1,118,644)	(2,334,232)
<b>Total Capital Assets, Net</b>	<u>986,632</u>	<u>2,417,112</u>	<u>3,403,744</u>
<b>Total Assets</b>	<u>1,625,325</u>	<u>3,664,134</u>	<u>5,289,459</u>
<b>LIABILITIES</b>			
<b>Current Liabilities:</b>			
Accounts Payable	15	135,000	135,015
Deposits	8,500	-	8,500
Deferred Revenue	-	637,670	637,670
<b>Total Current Liabilities</b>	<u>8,515</u>	<u>772,670</u>	<u>781,185</u>
<b>Noncurrent Liabilities</b>			
Due Within One Year	4,000	45,325	49,325
Due in More Than One Year	2,651	684,063	686,714
<b>Total Liabilities</b>	<u>15,166</u>	<u>1,502,058</u>	<u>1,517,224</u>
<b>NET ASSETS</b>			
Invested in Capital Assets, Net of Related Debt	979,981	1,687,724	2,667,705
<b>Restricted For:</b>			
Debt Service	-	60,000	60,000
Impact Fees	-	45,874	45,874
Class "C" Roads	144,803	-	144,803
Hargis Hill Approach	23,600	-	23,600
Unrestricted	461,775	368,478	830,253
<b>Total Net Assets</b>	<u>\$ 1,610,159</u>	<u>\$ 2,162,076</u>	<u>\$ 3,772,235</u>

The accompanying notes are an integral part of these financial statements.

**WILLARD CITY  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2006**

		Program Revenues		
		Charges for	Operating	Capital
	Expenses	Services	Grants and	Grants and
			Contributions	Contributions
<b>Functions/Programs</b>				
<b>Governmental Activities</b>				
General Government	\$ 238,253	\$ 8,410	\$ 1,278	\$ -
Public Safety:				
Police	153,898	146,243	-	-
Fire	51,576	5,283	-	108,995
Highways and Public Improvement	141,529	38,004	64,432	-
Parks	17,746	11,964	-	-
Total Governmental Activities	603,002	209,904	65,710	108,995
<b>Business-type Activities</b>				
Water	280,467	338,316	-	-
Refuse	56,209	62,328	-	-
Sewer	-	37,800	-	236,330
Total Business-type Activities	336,676	438,444	-	236,330
<b>Total Government</b>	<b>\$ 939,678</b>	<b>\$ 648,348</b>	<b>\$ 65,710</b>	<b>\$ 345,325</b>

**General Revenues:**

**Taxes**

    Property

    Sales and Use

    Franchise

    Vehicle in Lieu

**Interest and Investment Earnings**

**Miscellaneous**

    Total General Revenues

    Change in Net Assets

**Net Assets at Beginning of Year**

    Prior Period Adjustment

    Net Assets - Beginning Restated

**Net Assets at End of Year**

The accompanying notes are an integral part of these financial statements.

# **Changes in Net Assets**

<b>Governmental Activities</b>	<b>Business- type Activities</b>	<b>Total</b>
\$ (228,565)	\$ -	\$ (228,565)
(7,655)	-	(7,655)
62,702	-	62,702
(39,093)	-	(39,093)
(5,782)	-	(5,782)
(218,393)	-	(218,393)
-	57,849	57,849
-	6,119	6,119
-	274,130	274,130
-	338,098	338,098
(218,393)	338,098	119,705
57,531	-	57,531
185,516	-	185,516
114,716	-	114,716
16,244	-	16,244
32,956	5,800	38,756
19,567	-	19,567
426,530	5,800	432,330
208,137	343,898	552,035
1,402,022	1,782,677	3,184,699
-	35,501	35,501
1,402,022	1,818,178	3,220,200
\$ 1,610,159	\$ 2,162,076	\$ 3,772,235

**WILLARD CITY  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
AS OF JUNE 30, 2006**

	<u>General</u>	<u>Capital Projects</u>	<u>Total Governmental Funds</u>
<b>ASSETS</b>			
Cash	\$ 271,073	\$ 317,499	\$ 588,572
Accounts Receivable - Intergovernmental	50,121	-	50,121
<b>TOTAL ASSETS</b>	<u><u>\$ 321,194</u></u>	<u><u>\$ 317,499</u></u>	<u><u>\$ 638,693</u></u>
<b>LIABILITIES</b>			
Accounts Payable	\$ 15	\$ -	\$ 15
Deposits	8,500	-	8,500
<b>TOTAL LIABILITIES</b>	<u>8,515</u>	<u>-</u>	<u>8,515</u>
<b>FUND BALANCES</b>			
Reserved for:			
Class C Roads	144,803	-	144,803
Construction	4,679	-	4,679
Hargis Hill Approach	23,600	-	23,600
Unreserved	139,597	317,499	457,096
<b>TOTAL FUND BALANCES</b>	<u>312,679</u>	<u>317,499</u>	<u>630,178</u>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<u><u>\$ 321,194</u></u>	<u><u>\$ 317,499</u></u>	<u><u>\$ 638,693</u></u>

The accompanying notes are an integral part of these financial statements.

**WILLARD CITY**  
**RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS**  
**TO THE STATEMENT OF NET ASSETS**  
**JUNE 30, 2006**

**Amounts reported for governmental activities in the  
statement of net assets are different because:**

<b>Total fund balances—total governmental funds</b>	<b>\$ 630,178</b>
<b>Capital assets used in governmental activities are not financial resources and, therefore are not reported in the funds.</b>	<b>986,632</b>
<b>Compensated absences are not due and payable in the current period and therefore are not reported in the funds.</b>	<u><b>(6,651)</b></u>
<b>Net assets of governmental activities</b>	<u><u><b>\$ 1,610,159</b></u></u>

**The accompanying notes are an integral part of these financial statements.**



**WILLARD CITY**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES**  
**GOVERNMENTAL FUNDS**  
**FOR THE YEAR ENDED JUNE 30, 2006**

	<u>General</u>	<u>Capital Projects</u>	<u>Total Governmental Funds</u>
<b>REVENUES</b>			
Taxes	\$ 374,007	\$ -	\$ 374,007
Licenses and Permits	43,781	-	43,781
Intergovernmental	174,705	-	174,705
Charges for services	19,880	-	19,880
Fines	146,243	-	146,243
Other Revenues	52,523	-	52,523
<b>Total Revenues</b>	<u>811,139</u>	<u>-</u>	<u>811,139</u>
<b>EXPENDITURES</b>			
Current Operating:			
General Government	232,928	-	232,928
Public Safety	387,069	-	387,069
Highways and Public Improvements	90,703	-	90,703
Parks	15,032	-	15,032
Capital Projects	-	91,651	91,651
<b>Total Expenditures</b>	<u>725,732</u>	<u>91,651</u>	<u>817,383</u>
Excess of Revenues Over (Under) Expenditures	85,407	(91,651)	(6,244)
<b>OTHER FINANCING SOURCES (USES)</b>			
Transfers-In	-	20,000	20,000
Transfers-Out	(20,000)	-	(20,000)
<b>Total Other Financing Sources (Uses)</b>	<u>(20,000)</u>	<u>20,000</u>	<u>-</u>
<b>Net Change in Fund Balances</b>	65,407	(71,651)	(6,244)
<b>Fund Balances at Beginning of Year</b>	<u>247,272</u>	<u>389,150</u>	<u>636,422</u>
<b>Fund Balances at End of Year</b>	<u>\$ 312,679</u>	<u>\$ 317,499</u>	<u>\$ 630,178</u>

The accompanying notes are an integral part of these financial statements.

## **BASIC FINANCIAL STATEMENTS**

**WILLARD CITY**  
**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES**  
**IN FUND BALANCE OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES**  
**FOR THE YEAR ENDED JUNE 30, 2006**

Net change in fund balance, total governmental funds	\$	(6,244)
--	----	---------

Amounts reported for governmental activities  
in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. In the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.

Capital Outlays	297,131	
Depreciation Expense	<u>(76,099)</u>	221,032

Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the governmental funds.

Compensated absences accrued	(15,686)
------------------------------	----------

Repayment of compensated absences is an expenditure in the governmental funds, but the repayment reduces the liability, already accrued in the statement of net assets. The compensated absences repaid was:

	<u>9,035</u>
--	--------------

Change in net assets of governmental activities	\$	<u><u>208,137</u></u>
---	----	-----------------------

The accompanying notes are an integral part of these financial statements.

**WILLARD CITY**  
**STATEMENT OF NET ASSETS**  
**PROPRIETARY FUNDS**  
**JUNE 30, 2006**

	<u>Utility</u>	<u>Sewer</u>	<u>Total Enterprise Funds</u>
<b>ASSETS</b>			
<b>Current Assets:</b>			
Cash	\$ 399,743	\$ 37,800	\$ 437,543
Restricted Cash	-	773,524	773,524
Accounts Receivable (Net)	<u>35,955</u>	<u>-</u>	<u>35,955</u>
Total Current Assets	<u>435,698</u>	<u>811,324</u>	<u>1,247,022</u>
<b>Noncurrent Assets:</b>			
<b>Capital Assets</b>			
Land	70,500	-	70,500
Equipment	118,692	-	118,692
Utility Systems	3,110,234	236,330	3,346,564
Less Accumulated Depreciation	<u>(1,118,644)</u>	<u>-</u>	<u>(1,118,644)</u>
Total Capital Assets, Net	<u>2,180,782</u>	<u>236,330</u>	<u>2,417,112</u>
Total Assets	<u><u>\$ 2,616,480</u></u>	<u><u>\$ 1,047,654</u></u>	<u><u>\$ 3,664,134</u></u>
<b>LIABILITIES</b>			
<b>Current Liabilities:</b>			
Accounts Payable	\$ -	\$ 135,000	\$ 135,000
Deferred Revenue	-	637,670	637,670
Current Portion of Long-Term Obligations	<u>45,325</u>	<u>-</u>	<u>45,325</u>
Total Current Liabilities	<u>45,325</u>	<u>772,670</u>	<u>817,995</u>
<b>Noncurrent Liabilities:</b>			
Long-Term Obligations, Net of Current Portion	<u>684,063</u>	<u>-</u>	<u>684,063</u>
Total Liabilities	<u>729,388</u>	<u>772,670</u>	<u>1,502,058</u>
<b>NET ASSETS</b>			
Invested in Capital Assets, Net of Related Debt	1,451,394	236,330	1,687,724
Restricted for Debt Service	60,000	-	60,000
Restricted for Impact Fees	8,074	37,800	45,874
Unrestricted	<u>367,624</u>	<u>854</u>	<u>368,478</u>
Total Net Assets	<u>1,887,092</u>	<u>274,984</u>	<u>2,162,076</u>
Total Liabilities and Net Assets	<u><u>\$ 2,616,480</u></u>	<u><u>\$ 1,047,654</u></u>	<u><u>\$ 3,664,134</u></u>

The accompanying notes are an integral part of these financial statements.

**WILLARD CITY**  
**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS**  
**PROPRIETARY FUNDS**  
**FOR THE YEAR ENDED JUNE 30, 2006**

	<u>Utility</u>	<u>Sewer</u>	<u>Total Enterprise Funds</u>
<b>Operating Revenues:</b>			
<b>Charges for Services:</b>			
Water	\$ 251,575	\$ -	\$ 251,575
Refuse	62,328	-	62,328
<b>Total Operating Revenues</b>	<u>313,903</u>	<u>-</u>	<u>313,903</u>
<b>Operating Expenses:</b>			
Salaries and Benefits	60,841	-	60,841
Utilities	52,296	-	52,296
Contracted Services	54,573	-	54,573
Supplies and Maintenance	35,604	-	35,604
Depreciation	72,947	-	72,947
Insurance and Surety Bonds	19,553	-	19,553
<b>Total Operating Expenses</b>	<u>295,814</u>	<u>-</u>	<u>295,814</u>
<b>Operating Income (Loss)</b>	18,089	-	18,089
<b>Nonoperating Revenues (Expenses)</b>			
Connection Fees	13,426	-	13,426
Impact Fees	73,315	37,800	111,115
Interest Revenue	4,946	854	5,800
Interest Expense	(40,862)	-	(40,862)
Grants	-	236,330	236,330
<b>Total Nonoperating Revenues (Expenses)</b>	<u>50,825</u>	<u>274,984</u>	<u>325,809</u>
<b>Change in Net Assets</b>	68,914	274,984	343,898
<b>Total Net Assets - Beginning</b>	1,782,677	-	1,782,677
<b>Prior Period Adjustment</b>	35,501	-	35,501
<b>Total Net Assets - Beginning Restated</b>	<u>1,818,178</u>	<u>-</u>	<u>1,818,178</u>
<b>Total Net Assets - Ending</b>	<u>\$ 1,887,092</u>	<u>\$ 274,984</u>	<u>\$ 2,162,076</u>

The accompanying notes are an integral part of these financial statements.

**WILLARD CITY**  
**STATEMENT OF CASH FLOWS**  
**PROPRIETARY FUNDS**  
**FOR THE YEAR ENDED JUNE 30, 2006**

	<u>Utility</u>	<u>Sewer</u>	<u>Total Enterprise Funds</u>
<b>Cash Flows from Operating Activities</b>			
Cash Received From Customers	\$ 310,748	\$ -	\$ 310,748
Cash Paid to Suppliers	(162,026)	-	(162,026)
Cash Paid to Employees	(60,841)	-	(60,841)
Net Cash Provided (Used) by Operating Activities	<u>87,881</u>	<u>-</u>	<u>87,881</u>
<b>Cash Flows from Noncapital Financing Activities</b>			
Transfers In	-	-	-
Transfers Out	-	-	-
Net Cash Used in Noncapital Financing Activities	<u>-</u>	<u>-</u>	<u>-</u>
<b>Cash Flows from Capital and Related Financing Activities</b>			
Principal Payments - Bonds	(76,445)	-	(76,445)
Interest Paid	(40,862)	-	(40,862)
Acquisition of Capital Assets	(17,124)	(101,330)	(118,454)
Grants Received	-	874,000	874,000
Impact Fees Collected	73,315	37,800	111,115
Collection Fees Collected	13,426	-	13,426
Net Cash Used in Capital and Related Financing Activities	<u>(47,690)</u>	<u>810,470</u>	<u>762,780</u>
<b>Cash Flows from Investing Activities</b>			
Interest on Investments	4,946	854	5,800
Net Cash Provided by Investing Activities	<u>4,946</u>	<u>854</u>	<u>5,800</u>
<b>Net Increase (Decrease) in Cash</b>	<u>45,137</u>	<u>811,324</u>	<u>856,461</u>
<b>Cash - July 1</b>	<u>354,606</u>	<u>-</u>	<u>354,606</u>
<b>Cash - June 30</b>	<u><u>\$ 399,743</u></u>	<u><u>\$ 811,324</u></u>	<u><u>\$ 1,211,067</u></u>
<b>Reconciliation of Operating Income (Loss) to Net Cash Provided by Operating Activities</b>			
Operating Income (Loss)	\$ 18,089	\$ -	\$ 18,089
<b>Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided by Operating Activities</b>			
Depreciation	72,947	-	72,947
<b>Changes in Assets and Liabilities:</b>			
Accounts Receivable	(3,155)	-	(3,155)
<b>Net Cash Provided by Operating Activities</b>	<u><u>\$ 87,881</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 87,881</u></u>

The accompanying notes are an integral part of these financial statements.

## **WILLARD CITY**

### **NOTES TO FINANCIAL STATEMENTS JUNE 30, 2006**

#### **I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

##### **A. General Statement**

The government is a municipal corporation governed by an elected mayor and council. The City was founded March 31, 1851. The City provides the following services as authorized by its charter: Public safety (police and fire), public utilities (water and refuse), highways and streets, social services, culture-recreation, public improvements, planning and zoning, and general administrative services.

The City's financial statements are prepared in accordance with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (Statements and Interpretations). Governments are also required to follow the pronouncements of the Financial Accounting Standards Board (FASB) issued through November 30, 1989 (when applicable that do not conflict with or contradict GASB pronouncements). Although the City has the option to apply FASB pronouncements issued after that date to its business-type activities and enterprise funds, the City has chosen not to do so. The more significant accounting policies established in GAAP and used by the City are discussed below.

In defining the government, for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the criteria set forth by the Governmental Accounting Standards Board (GASB).

##### **B. Basic Financial Statements**

The City's basic financial statements consist of the government-wide statements, including a statement of net assets and a statement of activities, and fund financial statements, which provide a more detailed level of financial information.

##### **Government-Wide Financial Statements**

*Statement of Net Assets* - The statement of net assets and the statement of activities display information about the City as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. The statements distinguish between those activities of the City that are governmental and those that are considered business-type activities. The statement of net assets presents the financial condition of the governmental and business-type activities of the City at year end.

## **WILLARD CITY**

### **NOTES TO FINANCIAL STATEMENTS JUNE 30, 2006**

#### **I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

##### **C. Basic Financial Statements (continued)**

*Statement of Activities* - The statement of activities presents a comparison between direct expenses and program revenues for each program or function of the City's governmental activities and for business-type activities of the City. Direct expenses are those that are specifically associated with a service, program, or department and therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program, grants and contributions that are restricted to meeting the operational or capital requirements of a particular program, and interest earned on grants that is required to be used to support a particular program. Revenues which are not classified as program revenues are presented as general revenues of the City, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each governmental program or business activity is self-financing or draws from the general revenues of the City.

##### **Fund Financial Statements**

During the year, the City segregates transactions related to certain City functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Fund financial statements are designed to present financial information of the City at this more detailed level. The focus of governmental and enterprise fund financial statements is on major funds. Each major fund is presented in a separate column.

##### **D. Fund Accounting**

The City uses funds to maintain its financial records during the year. A fund is defined as a fiscal and accounting entity with a self balancing set of accounts.

There are three categories of funds: governmental, proprietary, and fiduciary. The following fund types are used by the City:

##### **Governmental Funds:**

The focus of the governmental funds' measurement (in the fund statements) is upon determination of financial position and changes in financial position (sources, uses, and balances of financial resources) rather than upon net income. The following is a description of the governmental funds of the City:

**General fund** is the general operating fund of the City. It is used to account for all financial resources except those required to be accounted for in another fund.



## WILLARD CITY

### NOTES TO FINANCIAL STATEMENTS JUNE 30, 2006

#### I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

##### D. Fund Accounting (continued)

**Capital projects fund** is used to account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by business-type/proprietary funds).

##### **Proprietary Funds:**

The focus of proprietary fund measurement is upon determination of operating income, changes in net assets, financial position, and cash flows. The generally accepted accounting principles applicable are those similar to businesses in the private sector. Proprietary funds are accounted for on the flow of economic resources measurement focus and use the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred. The government applies all applicable FASB pronouncements in accounting and reporting for its proprietary operations.

Proprietary Funds are required to account for operations for which a fee is charged to external users for goods or services and the activity (a) is financed with debt that is solely secured by a pledge of the net revenues, (b) has third party requirements that the cost of providing services, including capital costs, be recovered with fees and charges or (c) establishes fees and charges based on a pricing policy designed to recover similar costs.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments-in-lieu of taxes and other charges between the government's various departments. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

The following is a description of the proprietary funds of the City.

**Utility Fund** is used to account for the provision of water and refuse services to the residents of the City. Activities of the fund include administration, operations and maintenance of the water and refuse system and billing and collection activities. The fund also accounts for the accumulation of resources for, and the payment of, long-term debt principal and interest for debt. All costs are financed through charges to utility customers with rates reviewed regularly and adjusted if necessary to ensure integrity of the funds.

**Sewer Fund** is used to account for the provision of sewer services to the residents of the City. However, the Sewer system has not been installed in the City as of June 30, 2006. For the time being the fund is used to collect impact fees and construct the sewer system. In the future the fund will include activities of administration, operations, and maintenance of the sewer system and charges will be assessed to users of the system.

## **WILLARD CITY**

### **NOTES TO FINANCIAL STATEMENTS JUNE 30, 2006**

#### **I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

##### **E. Measurement Focus/Basis of Accounting**

Measurement focus refers to what is being measured; basis of accounting refers to the point at which revenues or expenditures/expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made regardless of the measurement focus applied.

Government-wide financial statements and fund financial statements for proprietary funds are reported using the economic resources measurement focus and the accrual basis of accounting. The economic resources measurement focus means all assets and liabilities (whether current or non-current) are included on the statement of net assets and the operating statements present increases (revenues) and decreases (expenses) in net total assets. Under the accrual basis of accounting, revenues are recognized when earned, including unbilled water and refuse services which are accrued. Expenses are recognized at the time a liability is incurred.

Fund financial statements are reported using the current financial resources measurement focus and are accounted for using the modified accrual basis of accounting. Under the modified accrual basis of accounting revenues are recognized when susceptible to accrual (i.e., when they are "measurable and available").

"Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period. The government considers all revenues available if they are collected within 60 days after year end. Expenditures are recorded when the related fund liability is incurred, except for unmatured interest on long-term debt which is recognized when due, and certain compensated absences and claims and judgments which are recognized when the obligations are expected to be liquidated with expendable available financial resources.

Property taxes, franchise taxes, licenses, and interest are susceptible to accrual. Sales taxes collected and held by the state at year end on behalf of the government are also recognized as revenue. Other receipts and taxes become measurable and available when cash is received by the government and are recognized as revenue at that time.

Entitlements and shared revenues are recorded at the time of receipt or earlier if the susceptible to accrual criteria are met. Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other grant requirements have been met.

## **WILLARD CITY**

### **NOTES TO FINANCIAL STATEMENTS JUNE 30, 2006**

#### **I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

##### **F. Assets, Liabilities and Equity**

###### **Deposits and Investments**

The government's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

###### **Restricted Cash**

Proceeds from an outside source have been classified as restricted on the statement of net assets in the Sewer fund. These funds are maintained in a separate bank account and their use is limited to new development and construction of the sewer system.

###### **Interfund Receivables and Payables**

During the course of operations, numerous transactions occur between individual funds that may result in amounts owed between funds. Those related to goods and services type transactions are classified as "due to and from other funds." Short-term interfund loans are reported as "interfund receivables and payables." Long-term interfund loans (noncurrent portion) are reported as "advances from and to other funds." Interfund receivables and payables between funds within governmental activities are eliminated in the Statement of Net Assets.

###### **Receivables and Payables**

In the government-wide statements, receivables consist of all revenues earned at year end and not yet received. Allowances for uncollectible accounts receivable are based upon historical trends and the periodic aging of accounts receivable.

###### **Capital Assets**

Capital assets which include property, plant, equipment, and infrastructure assets (e.g. roads, bridges and similar items) are reported in the applicable governmental or business-type activities columns in the government-wide financial statements and in the fund financial statement for proprietary funds. All capital assets are valued at historical cost or estimated historical cost if actual historical is not available. Donated assets are valued at their fair market value on the date donated. Repairs and maintenance are recorded as expenses.

## **WILLARD CITY**

### **NOTES TO FINANCIAL STATEMENTS JUNE 30, 2006**

#### **I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

##### **F. Assets, Liabilities and Equity (continued)**

###### **Capital Assets (continued)**

Renewals and betterments are capitalized. Interest has not been capitalized during the construction period on property, plant and equipment.

Assets capitalized, not including infrastructure assets, have an original cost of \$5,000 or more and over three years of useful life. Infrastructure assets capitalized have an original cost of \$100,000 or more. Depreciation has been calculated on each class of depreciable property using the straight-line method.

Estimated useful lives are as follows:

<u>Assets</u>	<u>Years</u>
Buildings	50
Water system	50
Infrastructure	20
Equipment	7

###### ***Fund Financial Statements***

In the fund financial statements, capital assets used in governmental fund operations are accounted for as capital outlay expenditures of the governmental fund upon acquisition. Capital assets used in proprietary fund operations are accounted for the same as in the government-wide statements.

###### **Long-term Debt**

The accounting treatment of long-term debt depends on whether the assets are used in governmental fund operations or proprietary fund operations and whether they are reported in the government-wide or fund financial statements.

All long-term debt to be repaid from governmental and business-type resources are reported as liabilities in the government-wide statements. The long-term debt consists primarily of bonds payable.

**WILLARD CITY**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2006**

**I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**F. Assets, Liabilities and Equity (continued)**

**Long-term Debt (continued)**

Long-term debt for governmental funds is not reported as liabilities in the fund financial statements. The debt proceeds are reported as other financing sources and payment of principle and interest reported as expenditures. The accounting for the proprietary fund is the same in the fund statements as it is in the government-wide statements.

**Compensated Absences**

City employees accrue vacation leave, or compensated absences, by prescribed formula based on length of service. The value of accumulated benefits earned by employees, which may be used in subsequent years or paid upon termination or retirement, is recorded as long-term debt in the government-wide statements. The current portion of this debt is estimated based on historical trends.

**Equity Classifications**

*Government-wide Statements*

Equity is classified as net assets and displayed in three components:

- a. Invested in capital assets, net of related debt – Consists of capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.
- b. Restricted net assets – Consists of net assets with constraints in place on the use either by (1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments; or (2) law through constitutional provisions or enabling legislation.
- c. Unrestricted net assets – All other net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt."

It is the City's policy to first apply restricted resources rather than unrestricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

## **WILLARD CITY**

### **NOTES TO FINANCIAL STATEMENTS JUNE 30, 2006**

#### **I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

##### **F. Assets, Liabilities and Equity (continued)**

###### **Equity Classifications (continued)**

###### ***Fund Statements***

Governmental fund equity is classified as fund balance. Fund balance is further classified as reserved and unreserved, with unreserved further split between designated and undesignated. Proprietary fund equity is classified the same as in the government-wide statements.

###### **Interfund Transactions**

Interfund services provided and used are accounted for as revenues, expenditures or expenses. Transactions that constitute reimbursements to a fund for expenditures/expenses initially made from it that are properly applicable to another fund, are recorded as expenditures/expenses in the reimbursing fund and as reductions of expenditures/expenses in the fund that is reimbursed.

All other interfund transactions, except quasi-external transactions and reimbursement, are reported as transfers. Nonrecurring or non-routine permanent transfers of equity are reported as residual equity transfers. All other interfund transfers are reported as non-operating transfers.

###### **Property Tax**

Real property taxes are collected by the County Treasurer and remitted to the City after collection. Taxes are due and payable on November 1st and delinquent after 12 o'clock noon on November 30th of each year. The tax levy is established by June 15th with a lien date of January 1st. Property tax revenue is not recognized when levied, because it is not expected to be collected within 60 days after the end of the fiscal year.

###### **Operating Revenues and Expenses**

Operating revenues and expenses in the proprietary funds consist of those revenues that result from the ongoing principal operations of the City. Operating revenues consist of charges for services. Nonoperating revenues and expenses consist of those revenues and expenses that are related to financing and investing type activities and result from nonexchange transactions or ancillary activities.

## **WILLARD CITY**

### **NOTES TO FINANCIAL STATEMENTS JUNE 30, 2006**

#### **II. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**

##### **A. Budget Information**

Annual budgets are prepared and adopted in accordance with the "Uniform Fiscal Procedures Act for Utah cities" by the Willard City Municipal Council on or before June 22nd for the following fiscal year which begins on July 1. Budgets may be increased by resolution of the Municipal Council at any time during the year, following a public hearing. Budgets are adopted at sub-department levels; however budget amendments by resolution are generally required only if the department desires to exceed its total budget appropriation.

The City adheres to the following procedures in establishing the budgetary data reflected in the financial statements:

1. On or before May 1, the Mayor submits to the City Council a proposed operating budget for the fiscal year commencing the following July 1. The operating budget includes proposed expenditures and the means of financing them.
2. Prior to the formal adoption of the budget the City Council will hold budget workshop meetings which are open to the public.
3. Prior to June 22nd the City Council sets a date for a public budget hearing at which time taxpayers' comments are heard. Copies of the proposed budget are made available for public inspection 10 days prior to the budget hearing. At the conclusion of the budget hearing the budget, as amended, is legally enacted through passage of a resolution.
4. Formal budgetary integration is employed as a management control device during the year for the General Fund and Enterprise Funds.
5. Budgets for the General Fund are adopted on a basis consistent with Generally Accepted Accounting Principles (GAAP). Budgets for the proprietary fund types are prepared using the accrual basis of accounting except that depreciation for all proprietary fund types are not budgeted. Budgeted amounts are as originally adopted, or as amended by the City Council during the 2005/2006 fiscal year.
6. Unencumbered budget appropriations lapse at the end of the fiscal year.

## **WILLARD CITY**

### **NOTES TO FINANCIAL STATEMENTS JUNE 30, 2006**

#### **II. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY (continued)**

##### **B. Fund Equity Restrictions**

Reserved for Class "C" Roads - The State of Utah remits a portion of license fees paid and gasoline taxes collected to local units of government as Class "C" Road Funds to be used for the construction and maintenance of roads within the boundaries of the local jurisdiction. All unexpended funds that have been received are reserved at the end of the fiscal year to be appropriated in subsequent budget years.

Reserved for Hargis Hill Approach - A grant was received in FY 2002 for the Hargis Hill Approach. A reserve has been created for the spending of this grant.

Reserved for Debt Service - The covenants of the outstanding water revenue bonds require that a debt service reserve of \$60,000 be established and maintained throughout the remaining life of these bonds.

Reserved for Impact Fees - Impact fees are charges imposed by the City upon developers or new homeowners for their respective impact on the cost of the sewer system or water system. These funds are restricted for the purpose from which they were charged to the homeowner or developer.

#### **III. DETAILED NOTES ON TRANSACTION CLASSES/ACCOUNTS (continued)**

##### **A. Deposits and Investments**

The City maintains a cash and investment pool that is available for use by all funds. Cash includes amounts in demand deposits as well as time deposits. Investments are stated at cost or amortized cost, which approximates fair value. Each fund's portion of this pool is displayed as "Cash and Cash Equivalents" which also includes cash accounts that are separately held by some of the City's funds. Deposits are not collateralized nor are they required to be by State statute.

The City follows the requirements of the Utah Money Management Act (*Utah Code*, Section 51, Chapter 7) in handling its depository and investment transactions. This Act requires the depositing of city funds in a "qualified depository". The Act defines a "qualified depository" as any financial institution whose deposits are insured by an agency of the Federal government and which has been certified by the State Commissioner of Financial Institutions as meeting the requirements of the Act and adhering to the rules of the Utah Money Management Council.



## WILLARD CITY

### NOTES TO FINANCIAL STATEMENTS JUNE 30, 2006

#### III. DETAILED NOTES ON TRANSACTION CLASSES/ACCOUNTS (continued)

##### A. Deposits and Investments (continued)

###### Deposits

*Custodial credit risk* – Custodial credit risk is the risk that, in the event of a bank failure, the City's deposits may not be returned to it. The City does not have a formal deposit policy for custodial credit risk. As of June 30, 2006, \$82,539 of the City's bank balances of \$182,539 was uninsured and uncollateralized.

###### Investments

The Money Management Act defines the types of securities authorized as appropriate investments for the City and the conditions for making investment transactions. Investment transactions may be conducted only through qualified depositories, certified dealers, or directly with issuers of the investment securities.

Statutes authorize the City to invest in negotiable or nonnegotiable deposits of qualified depositories and permitted negotiable depositories; repurchase and reverse repurchase agreements; commercial paper that is classified as "first tier" by two nationally recognized statistical rating organizations, one of which must be Moody's Investors Services or Standard & Poor's; bankers' acceptances; obligations of the United States Treasury including bills, notes, and bonds; bonds, notes and other evidence of indebtedness of political subdivision of the State; fixed rate corporate obligations and variable rate securities rated "A" or higher, or the equivalent of "A" or higher, by two nationally recognized statistical rating organizations; shares or certificates in a money market mutual fund as defined in the Act; and the Utah State Public Treasurer's Investment Fund (PTIF).

The PTIF is not registered with the SEC as an investment company. The PTIF is authorized and regulated by the Money Management Act, Section 51-7, *Utah Code Annotated*, 1953, as amended. The Act established the Money Management Council which oversees the activities of the State Treasurer and the PTIF and details the types of authorized investments. Deposits in the PTIF are not insured or otherwise guaranteed by the State of Utah, and participants share proportionally in any realized gains or losses on investments.

The PTIF operates and reports to participants on an amortized cost basis. The income, gains and losses – net of administration fees, of the PTIF are allocated based upon the participant's average daily balance. The fair value of the PTIF Investment pool is approximately equal to the value of the pool shares.

# WILLARD CITY

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2006

### III. DETAILED NOTES ON TRANSACTION CLASSES/ACCOUNTS (continued)

#### A. Deposits and Investments (continued)

As of June 30, 2006, the City had the following investments and maturities:

Investment Type	Fair Value	Investment Maturities (in Years)				Quality Ratings
		Less than 1	1-5	6-10	More than 10	
PTIF Investments	1,779,234	1,779,234	-	-	-	not rated
	1,779,234	1,779,234	-	-	-	

**Interest rate risk** – Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The City manages its exposure to declines in fair value by investing mainly in the Utah Public Treasurers Investment Fund and by adhering to the Money Management Act. The Act requires that the remaining term to maturity of investments may not exceed the period of availability of the funds to be invested. The Act further limits the remaining term to maturity of commercial paper to 270 days or less and fixed rate negotiable deposits and corporate obligations to 365 days or less. Maturities of the City's investments are noted in the previous table.

**Credit risk** – Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The City's policy for reducing its exposure to credit risk is to comply with the State's Money Management Act as previously discussed.

**Concentration of credit risk** – Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. The City's policy for reducing this risk of loss is to comply with the Rules of the Money Management Council. Rule 17 of the Money Management Council limits investments in a single issuer of commercial paper and corporate obligations to 5-10% depending upon the total dollar held in the portfolio. The City's investment in the Utah Public Treasurer's Investment Fund has no concentration of credit risk.

**Custodial credit risk (investments)** – For an investment, this is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The City does not have a formal policy for custodial credit risk. The City's investment in the Utah Public Treasurer's Investment Fund has no custodial credit risk.

# WILLARD CITY

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2006

### III. DETAILED NOTES ON TRANSACTION CLASSES/ACCOUNTS (continued)

#### A. Deposits and Investments (continued)

Components of cash and investments (including interest earning deposits) at June 30, 2006, are as follows:

Cash on hand and on deposit:	
Cash on deposit	\$ 20,405
PTIF investment	<u>1,779,234</u>
Total cash and investments	<u>\$1,799,639</u>

Cash and investments are included in the accompanying combined statement of net assets as follows:

Cash	\$1,026,115
Restricted cash	<u>773,524</u>
Total cash and investments	<u>\$1,799,639</u>

The restricted cash at year end consisted of money from a grant, which is restricted in purpose solely for the construction of a new sewer system.

#### B. Accounts Receivable

Accounts receivable for the City, including the applicable allowance for uncollectible accounts at June 30, 2006, are as follows:

	<u>General</u>	<u>Water</u>	<u>Total</u>
Receivables	\$ -	\$ 35,955	\$ 35,955
Intergovernmental	<u>50,121</u>	<u>-</u>	<u>50,121</u>
Gross receivables	50,121	35,955	86,076
Less: Allowance for uncollectibles	<u>-</u>	<u>-</u>	<u>-</u>
Net total receivables	<u>\$ 50,121</u>	<u>\$ 35,955</u>	<u>\$ 86,076</u>

The City had no interfund receivables as of June 30, 2006.

# WILLARD CITY

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2006

### III. DETAILED NOTES ON TRANSACTION CLASSES/ACCOUNTS (continued)

#### C. Capital Assets

A summary of changes in capital assets follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
<b>Governmental activities</b>				
Capital assets, not being depreciated				
Land	\$ 53,000	\$ -	\$ -	\$ 53,000
Total capital assets, not being depreciated	53,000	-	-	53,000
Capital assets, being depreciated				
Infrastructure	948,535	-	-	948,535
Improvements	51,937	-	-	51,937
Buildings	349,047	-	-	349,047
Machinery and Equipment	502,570	297,131	-	799,701
Total capital assets, being depreciated	1,852,089	297,131	-	2,149,220
Accumulated Depreciation for:				
Infrastructure	(688,911)	(13,777)	-	(702,688)
Improvements	(15,655)	(1,994)	-	(17,649)
Buildings	(142,340)	(6,981)	-	(149,321)
Machinery and Equipment	(292,582)	(53,348)	-	(345,930)
Total accumulated depreciation	(1,139,488)	(76,100)	-	(1,215,588)
Total capital assets, being depreciated, net	712,601	221,031	-	933,632
Governmental activities capital assets, net	<u>\$ 765,601</u>	<u>\$221,031</u>	<u>\$ -</u>	<u>\$ 986,632</u>

Depreciation expense was charged to functions/departments of the governmental activities as follows:

#### Governmental Activities:

General Government	\$ 3,825
Police	8,816
Fire	24,907
Highways and Public Improvements	35,837
Parks	2,714
	<u>76,099</u>
Total Depreciation Expense	<u>\$ 76,099</u>

# WILLARD CITY

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2006

### III. DETAILED NOTES ON TRANSACTION CLASSES/ACCOUNTS (continued)

#### C. Capital Assets (continued)

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
<b>Business-type activities</b>				
Capital assets, not being depreciated				
Land	\$ 70,500	\$ -	\$ -	\$ 70,500
Total capital assets, not being depreciated	70,500	-	-	70,500
Capital assets, being depreciated				
Water System	3,110,234	-	-	3,110,234
Sewer System	-	236,330	-	236,330
Machinery and Equipment	101,568	17,124	-	118,692
Total capital assets, being depreciated	3,211,802	253,454	-	3,465,256
Accumulated Depreciation for:				
Water System	(960,891)	(66,708)	-	(1,027,599)
Sewer System	-	-	-	-
Machinery and Equipment	(84,806)	(6,239)	-	(91,045)
Total accumulated depreciation	(1,045,697)	(72,947)	-	(1,118,644)
Total capital assets, being depreciated, net	2,166,105	180,507	-	2,346,612
Business-type activities capital assets, net	<u>\$2,236,605</u>	<u>\$180,507</u>	<u>\$ -</u>	<u>\$2,417,112</u>

#### D. Interfund Transfers

The General fund transferred \$20,000 to the Capital projects fund during the year in order to set aside funds for future capital projects.

The Sewer fund has borrowed \$63,530 from the Utility fund to cover capital costs incurred before funds became available from the Sewer fund itself. It is expected that this interfund borrowing will be repaid within the year.

# WILLARD CITY

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2006

### III. DETAILED NOTES ON TRANSACTION CLASSES/ACCOUNTS (continued)

#### E. Long-Term Debt

**Revenue Bonds.** The government issues bonds where the government pledges income derived from the acquired or constructed assets to pay debt service. Revenue bonds outstanding at year end are as follows:

#### Utility Fund

5.00% water revenue bonds series 2001		
Issued September 1, 2001		
Matures September 1, 2012		\$293,688
5.25% water revenue bonds series 1995		
Issued November 17, 1995		
Matures October 17, 2035		347,990
5.125% water revenue bonds series 1995 B		
Issued November 17, 1995		
Matures October 17, 2035		<u>87,710</u>
		<u>\$ 729,388</u>

The annual requirements to amortize the bonds are as follows:

Year Ended June 30,	2001 Water Revenue Bonds		
	Principal	Interest	Total
2007	\$ 37,816	\$ 14,684	\$ 52,500
2008	38,906	12,794	51,700
2009	41,002	10,848	51,850
2010	52,102	8,798	60,900
2011	55,207	6,193	61,400
2012	58,317	3,433	61,750
2013	10,338	517	10,855
<b>Totals</b>	<u>\$ 293,688</u>	<u>\$ 57,267</u>	<u>\$ 350,955</u>

# WILLARD CITY

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2006

### III. DETAILED NOTES ON TRANSACTION CLASSES/ACCOUNTS (continued)

#### E. Long-Term Debt (continued)

<u>1995 Water Revenue Bonds 5.25%</u>			
<u>Year Ended June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	\$ 6,079	\$ 17,873	\$ 23,952
2008	6,402	17,550	23,952
2009	6,741	17,211	23,952
2010	7,099	16,853	23,952
2011	7,475	16,477	23,952
2012-2016	43,757	76,003	119,760
2017-2021	56,651	63,109	119,760
2022-2026	73,348	46,412	119,760
2027-2031	94,965	24,795	119,760
2032-2035	45,473	2,496	47,969
<b>Totals</b>	<b>\$ 347,990</b>	<b>\$ 298,779</b>	<b>\$ 646,769</b>

<u>1995B Water Revenue Bonds 5.125%</u>			
<u>Year Ended June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	\$ 1,430	\$ 4,462	\$ 5,892
2008	1,505	4,387	5,892
2009	1,584	4,308	5,892
2010	1,667	4,225	5,892
2011	1,755	4,137	5,892
2012-2016	10,256	19,204	29,460
2017-2021	13,243	16,217	29,460
2022-2026	17,103	12,357	29,460
2027-2031	22,086	7,374	29,460
2032-2035	17,081	1,448	18,529
<b>Totals</b>	<b>\$ 87,710</b>	<b>\$ 78,119</b>	<b>\$ 165,829</b>

# WILLARD CITY

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2006

### III. DETAILED NOTES ON TRANSACTION CLASSES/ACCOUNTS (continued)

#### E. Long-Term Debt (continued)

Changes in Long-Term Liabilities - During the year, the following changes occurred in long-term liabilities:

	Balance July 1, 2005	Additions	Reductions	Balance June 30, 2006	Amounts Due Within One Year
<b>Governmental Activities:</b>					
Compensated Absences	\$ -	\$ 15,686	\$ (9,035)	\$ 6,651	\$ 4,000
<b>Total Governmental Activities</b>	<u>\$ -</u>	<u>\$ 15,686</u>	<u>\$ (9,035)</u>	<u>\$ 6,651</u>	<u>\$ 4,000</u>
	Balance July 1, 2005	Additions	Reductions	Balance June 30, 2006	Amounts Due Within One Year
<b>Business-type Activities:</b>					
5.00% Water Revenue Bonds	\$363,000	\$ -	\$ (69,312)	\$293,688	\$ 37,816
5.25% Water Revenue Bonds	353,763	-	(5,773)	347,990	6,079
5.125% Water Revenue Bonds	89,069	-	(1,359)	87,710	1,430
<b>Total Business-type Activities</b>	<u>\$805,832</u>	<u>\$ -</u>	<u>\$ (76,444)</u>	<u>\$729,388</u>	<u>\$ 45,325</u>

#### F. Retirement System

**Plan Description.** Willard City contributes to the Local Governmental Noncontributory Retirement System and the Public Safety Retirement System for employers with Social Security coverage cost-sharing multiple-employer defined benefit pension plans administered by the Utah Retirement Systems (Systems). Utah Retirement Systems provide refunds, retirement benefits, annual cost of living adjustments and death benefits to plan members and beneficiaries in accordance with retirement statutes.

The Systems are established and governed by the respective sections of Chapter 49 of the Utah Code Annotated 1953 as amended. The Utah State Retirement Office Act in Chapter 49 provides for the administration of the Utah Retirement Systems and Plans under the direction of the Utah State Retirement Board (Board) whose members are appointed by the Governor. The Systems issue a publicly available financial report that includes financial statements and required supplementary information for the Local Governmental Noncontributory Retirement System and the Public Safety Retirement System for employers with Social Security coverage.



## **WILLARD CITY**

### **NOTES TO FINANCIAL STATEMENTS JUNE 30, 2006**

#### **III. DETAILED NOTES ON TRANSACTION CLASSES/ACCOUNTS (continued)**

##### **F. Retirement System (continued)**

A copy of the report may be obtained by writing to the Utah Retirement Systems, 540 East 200 South, Salt Lake City, UT 84102 or by calling 1-800-356-8772.

**Funding Policy.** Plan members in the Local Governmental Noncontributory Retirement System are not required to contribute to the plan. Willard City is required to contribute 11.09% of their annual covered salary. In the Public Safety Retirement System for employers with Social Security coverage contributory division members are not required to contribute to the plan. Willard City is required to contribute 19.34% of their annual covered salary for members in the noncontributory division. The contribution rates are the actuarially determined rates. The contribution requirements of the Systems are authorized by statute and specified by the Board.

Willard City's contributions to the Noncontributory Retirement System the Contributions for June 30, 2006, 2005 and 2004 were \$14,479, \$12,667, and \$10,708, respectively and for the Public Safety Retirement System the contributions for June 30, 2006, 2005 and 2004 were \$12,005, \$11,390, and \$10,421, respectively. The contributions were equal to the required contributions for each year.

##### **G. Risk Management – Claims and Judgments**

The City is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters. The City maintains commercial insurance for all major programs. There have been no significant reductions in insurance coverage. Settlement amounts have not exceeded insurance coverage for the current year or the prior year.

##### **H. Commitments**

The City has made a commitment for the design, development, and construction of a sewer system within the City's geographical region. The total cost of the sewer system is estimated to be approximately \$10,000,000. At year end, \$236,330 had been incurred in capital expenditures in the sewer fund.

##### **I. Prior Period Adjustment**

The City recorded a prior period adjustment of \$35,501 to the Utility Fund. In the prior year these funds were not recorded on the books, because it was believed that the City was not entitled to these funds. However, in 2006 the City was able to apply those funds to the outstanding bonds.

**REQUIRED  
SUPPLEMENTARY  
INFORMATION**

**WILLARD CITY**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL**  
**GENERAL FUND**  
**YEAR ENDED JUNE 30, 2006**

	<b>Budgeted Amounts</b>			<b>Variance with Final Budget Favorable (Unfavorable)</b>
	<b>Original</b>	<b>Final</b>	<b>Actual</b>	
<b>Revenues:</b>				
<b>Taxes:</b>				
Property Taxes	\$ 69,400	\$ 69,400	\$ 73,775	\$ 4,375
Sales Tax	125,000	150,000	185,516	35,516
Franchise Tax	95,729	95,729	114,716	18,987
	<u>290,129</u>	<u>315,129</u>	<u>374,007</u>	<u>58,878</u>
<b>Licenses and Permits:</b>				
Business Licenses	2,300	2,300	3,150	850
Building Permits	20,000	20,000	38,004	18,004
Miscellaneous Licenses	2,000	2,000	2,627	627
	<u>24,300</u>	<u>24,300</u>	<u>43,781</u>	<u>19,481</u>
<b>Intergovernmental:</b>				
Class "C" Road	63,000	63,000	64,432	1,432
State Liquor Allotment	2,284	2,284	1,278	(1,006)
Grants	220,216	220,216	108,995	(111,221)
	<u>285,500</u>	<u>285,500</u>	<u>174,705</u>	<u>(110,795)</u>
<b>Charges for Services:</b>				
Planning and Zoning	2,500	2,500	2,633	133
Fire Protection	8,000	8,000	5,283	(2,717)
Parks and Recreation	10,000	10,000	11,964	1,964
	<u>20,500</u>	<u>20,500</u>	<u>19,880</u>	<u>(620)</u>
<b>Fines and Forfeitures</b>	<u>106,550</u>	<u>115,000</u>	<u>146,243</u>	<u>31,243</u>
<b>Other Revenues:</b>				
Interest Earnings	8,000	8,000	32,956	24,956
Sundry	8,000	8,000	19,567	11,567
	<u>16,000</u>	<u>16,000</u>	<u>52,523</u>	<u>36,523</u>
<b>Total Revenues</b>	<u>\$ 742,979</u>	<u>\$ 776,429</u>	<u>\$ 811,139</u>	<u>\$ 34,710</u>

**WILLARD CITY**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL**  
**GENERAL FUND**  
**YEAR ENDED JUNE 30, 2006**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Favorable (Unfavorable)</u>
	<u>Original</u>	<u>Final</u>		
<b>Expenditures:</b>				
<b>General Government:</b>				
Administrative	\$ 128,650	\$ 155,600	\$ 154,459	\$ 1,141
Municipal Court	60,800	63,300	62,061	1,239
Buildings	17,950	17,950	16,408	1,542
	<u>207,400</u>	<u>236,850</u>	<u>232,928</u>	<u>3,922</u>
<b>Public Safety:</b>				
Police Department	154,464	154,464	141,431	13,033
Fire Department	243,195	247,195	245,638	1,557
	<u>397,659</u>	<u>401,659</u>	<u>387,069</u>	<u>14,590</u>
<b>Highways and Public Improvements:</b>				
Streets	122,650	122,650	90,703	31,947
<b>Parks and Recreation</b>	15,270	15,270	15,032	238
<b>Total Expenditures</b>	<u>742,979</u>	<u>776,429</u>	<u>725,732</u>	<u>50,697</u>
<b>Other financing sources (uses):</b>				
Operating transfers in (out)	<u>-</u>	<u>(20,000)</u>	<u>(20,000)</u>	<u>-</u>
<b>Total other financing sources (uses)</b>	<u>-</u>	<u>(20,000)</u>	<u>(20,000)</u>	<u>-</u>
<b>Excess (Deficiency) of Revenues over Expenditures</b>	<u>-</u>	<u>(20,000)</u>	<u>65,407</u>	<u>(85,407)</u>
<b>Fund Balance - July 1</b>	<u>247,272</u>	<u>247,272</u>	<u>247,272</u>	<u>-</u>
<b>Fund Balance - June 30</b>	<u>\$ 247,272</u>	<u>\$ 227,272</u>	<u>\$ 312,679</u>	<u>\$ 85,407</u>

## **SUPPLEMENTARY INFORMATION**

**WILLARD CITY  
IMPACT FEE REPORTING  
JUNE 30, 2006**

Impact fees are a funding tool used by local governments to place the cost of specific entity improvements to those that are creating the need for the improvements. Willard City has established two impact fees that are charged to either the developer or individual property owner.

**Water Impact Fee Reserve**

The water impact fee reserve has been collected in the 2006 year. The balance at June 30, 2006 was \$8,074. These funds are planned to be expended within the year for debt service on the bonds from which the capital improvements were made. A schedule of these future planned expenditures follows:

2007	\$	52,500
2008		51,700
2009		51,850
2010		60,900
2011		61,400
2012		61,750
2013		10,855
<b>Totals</b>	<b>\$</b>	<b><u>350,955</u></b>

**Sewer Impact Fee Reserve**

The sewer impact fee reserve was collected in the 2006 year. The balance at June 30, 2006 was \$37,800. These funds are planned to be expended in the near future to design, develop, and construct a new sewer system. All of the reserve at June 30, 2006 is expected to be spent in 2007 on the sewer system.

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## **AUDITORS' REPORTS**

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING  
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT  
OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE  
WITH GOVERNMENT AUDITING STANDARDS**

Honorable Mayor and City Council  
Willard City

We have audited the accompanying financial statements of the governmental activities, the business-type activities, and each major fund of Willard City, as of and for the year ended June 30, 2006, which collectively comprise Willard City's basic financial statements and have issued our report thereon dated November 3, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered Willard City's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Willard City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.



Honorable Mayor and City Council  
Willard City

We noted certain matters that we reported to management of Willard City in a separate letter dated November 3, 2006.

This report is intended solely for the information and use of the audit committee, management, City Council, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Wood Richards & Associates

Ogden, Utah  
November 3, 2006

**INDEPENDENT AUDITOR'S REPORT**  
**STATE OF UTAH LEGAL COMPLIANCE**

The Honorable Mayor and City Council  
Willard City, Utah

We have audited the accompanying financial statements of the governmental activities, business-type activities and each major fund of Willard City, Utah, for the year ended June 30, 2006 and have issued our report thereon dated November 3, 2006. As part of our audit, we have audited Willard City's compliance with the requirements governing types of services allowed or unallowed; eligibility; matching, level of effort, or earmarking; reporting; special tests and provisions applicable to each of its major State assistance programs as required by the State of Utah Legal Compliance Audit Guide for the year ended June 30, 2006. The City received the following major assistance programs from the State of Utah.

C Road Funds (Department of Transportation)  
Liquor Law Enforcement (State Tax Commission)  
Water Quality Grant (Department of Environmental Quality)

The City did not receive any nonmajor State grants during the year ended June 30, 2006.

Our audit also included testwork on the City's compliance with those general compliance requirements identified in the State of Utah Legal Compliance Audit Guide, including:

Public Debt	Liquor Law Enforcement
Cash Management	Justice Court
Purchasing Requirements	B & C Road Funds
Budgetary Compliance	Other General Compliance Issues
Truth in Taxation & Property	Uniform Building Code Standards
Tax Limitations	Impact Fees

The management of Willard City is responsible for the City's compliance with all compliance requirements identified above. Our responsibility is to express an opinion on compliance with those requirements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether material noncompliance with the requirements referred to above occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements. We believe that our audit provides a reasonable basis for our opinion.

Independent Auditor's Report on State Legal Compliance  
Page 2

The results of our audit procedures disclosed immaterial instances of noncompliance with requirements referred to above, which are described in the accompanying management letter. We considered these instances of noncompliance in forming our opinion on compliance, which is expressed in the following paragraph.

In our opinion, Willard City, Utah, complied, in all material respects, with the general compliance requirements identified above and the requirements governing types of services allowed or unallowed; eligibility; matching, level of effort, or earmarking; reporting; and special tests and provisions that are applicable to each of its major State assistance programs for the year ended June 30, 2006.

Wood Richards & Associates

November 3, 2006

**WILLARD CITY  
SUMMARY OF FINDINGS**

**FOR THE YEAR ENDED JUNE 30, 2006**

Finding #1: Utah Code 51-7-15 requires every public treasurer to secure a fidelity bond, based on the previous year's budgeted gross revenues, which includes all funds collected or handled by the public treasurer. The fidelity bond secured by the City's treasurer was below the required amount.

Recommendation: We recommend the City increase the fidelity bond to meet the required level, based on the 2006 budgeted revenue.

Response: Willard City will increase this bond to the required level according to the Utah Code 51-7-15.